CRITICAL INDUSTRIES COMMISSION

ANNUAL REPORT

for the period
April to December 31, 1985

Province of
British Columbia

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Province of
British Columbia

OFFICE OF THE
COMMISSIONER OF CRITICAL INDUSTRIES

209, 815 Hornby Street
Vancouver
British Columbia
V6Z 2E6
Telephone: (604) 660-3280

March 1, 1986

The Hon. Hugh Curtis
Minister of Finance
Parliament Bldgs.
Victoria, B.C. V8V 1X4

Dear Minister,

On behalf of the Critical Industries Commission, I hereby take pleasure in submitting the first annual report of the Commission for the nine months ending December 31, 1985.

Respectfully submitted,

Art Phillips

Arthur Phillips
Commissioner

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COMMISSIONER'S REPORT

Since the announcement by Premier W.R. Bennett on April 9, 1985 of the formation of this Office, it has been a busy period. Although the Critical Industries Act did not receive royal assent until June 28, 1985, we were able to start dealing with specific cases from the announcement date on.

The concept envisioned in the Critical Industries Act has worked very well. At first, there was some suspicion in the business community that this would be a bail-out program -- propping up uneconomic industries. It is not. We have turned down the majority of cases that have come to us. More significantly, the successful cases have only worked because a number of parties participated. Employees, company owners, bankers, suppliers and municipalities, as well as the Provincial Government, all contributed toward the solution of the problems of the various companies we have been able to help.

The legislation is unique in two other ways. One, a company does not have to be large or politically important in order to receive the full attention of the Critical Industries Act. We are currently working to help one enterprise that employs only seven people. We have dealt with organizations employing up to 900 people. Two, the actions taken under the Critical Industries Act do not set precedents. Therefore, we can use common sense when the established rules would otherwise interfere.

In the cases that have come before us, we have noticed a great deal of willingness on the part of employees, unions, owners and managers to work together to save or resurrect viable enterprises. The most significant example was the case of Lamford Forest Products, the former Sooke Forest Products operation. After months of unsuccessfully hoping that an ownership group would come forward and revive the bankrupt company, the IWA itself decided to take the bull by the horns and form a new company. It is owned by the employees, both

union and management, at the two mill sites at Sooke and New Westminster. They put together an excellent business plan which is off to a good start.

Having the most important private sector union so closely involved in the ownership of an enterprise could have a significant impact on labour relations in this province. They will get direct experience in the risks and rewards of operating a company. The management of other companies in the industry will also be able to see what happens when employees are motivated by owning the company they work for.

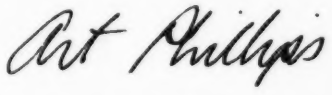
Almost all the companies we have worked with are moving in the direction of greater employee involvement in the running of the company. This may be through outright ownership in cases such as Lamford or Victoria Plywood. It may be by profit-sharing or by representation on the board. No matter how it is done, it is a trend that hopefully will improve the old-fashioned adversarial relationships that have all too often hampered labour relations in this province over the last century.

I would like to thank my excellent staff -- Executive Secretary Betty Mang and Executive Assistant Murray Munro. Their skills and enthusiasm have made it unnecessary to build a large group. We have been able to take advantage of the expertise in the private sector in dealing with companies in trouble. In the first nine months of the Commission's operation, we retained the services of seven different accounting firms, two forestry consultants, and two legal firms. I would like to particularly thank J.V. (Jack) Christensen, former President of Tahsis Company Ltd., whose sensitivity and wide knowledge of the forest industry has been invaluable.

We have also received considerable assistance from a variety of officials in the Provincial

Government service, and I would like to mention specifically: Mr. A.L. (Sandy) Peel, the Deputy Minister of Industry and Small Business Development, his assistant Mr. Wally Malkinson, and Mr. Jack Ebbels, Barrister, of the Attorney General's department. In fact, we do not intend to use any further outside legal services now that Mr. Ebbels has been able to fill this role so competently.

A great many enquiries have come to the Commission which were outside the mandate of forest products and metal mining industries. We have not attempted to keep track of these enquiries. The following table summarizes the enquiries that came to us which were within our mandate. We have also appended a financial statement of the Commission for the first nine months of operation, and a brief case history on each of the five completed cases. We are looking forward to another productive year in 1986.



Arthur Phillips
Commissioner

STATISTICAL SUMMARY - 9 MONTHS ENDING DECEMBER 31, 1985

Total number of serious enquiries in forestry and mining sectors	53
Cases dismissed after initial examination	27
Cases dropped after consultants' reports	4
Cases assisted successfully informally	3
Cases active at year-end	7
Cases in discussion stage at year-end	7
Economic Plans completed	5
Number of direct jobs involved in the completed Economic Plans	1,117
Projected annual gross sales of the five business enterprises	$200 Million

• VICTORIA PLYWOOD CO-OPERATIVE

The Victoria Plywood mill was closed in July 1984. The closure resulted in the loss of 178 jobs. After discussions with company and union officials, the former employees concluded that only by leasing the mill with an option to purchase and operating it as a co-operative could the business re-open. The employees approached the Critical Industries Commission in May, 1985 and the firm of Thorne Riddell was retained to act on behalf of the Commission.

	Contributions by Participants
Employees	Reduced wages and benefits by approximately 45%. The employees also performed all the entrepreneurial functions of forming and operating a new company.
B.C. Hydro	Reduced the rate charged for electricity by 50% for a three-year period ending May 15, 1988. As well, B.C. Hydro agreed to waive a $51,000 security deposit as long as bills were paid promptly.
Province	Eliminated the tax on machinery and equipment as of May 13, 1985. Reduced the school tax, collected by the Provincial Government, by 50% for the three years ending May 15, 1988.

- **BELL MINE**

The Bell copper mine ceased production in 1982 and the population of the Village of Granisle dropped from a high of 2,000 in 1981 to 400 in June, 1985. MacLaren Forest Products approached the office of the Critical Industries Commissioner in May, 1985 and the firm of Coopers and Lybrand was retained to act on behalf of the Commission.

Contributions by Participants

Employees	Agreed to the extension of the existing contract to the end of 1988 with no increase during this period. In addition, the union has been very progressive in its attitude towards work rules and productivity and this should be enhanced by the existence of a profit-sharing plan.
Company	Noranda Mines advanced a significant loan to Bell Mine at no interest. The company implemented a profit-sharing plan for all employees, union and non-union. The company agreed to operate at a loss over the life of the mine at present metal prices.
Province	Agreed to cancel the machinery and equipment component of the school tax, retroactive to January 1, 1985. In addition, the province agreed to a 50% reduction in the land and buildings component of the school tax for a period of three years.

B.C. Hydro	Agreed to a 37% maximum reduction in electricity rates over the life of the mine (Dec. 31, 1988). The discount will be phased out if the prices of copper and other metals in the ore rise to the point where the company is profitable.

• BRENDA MINES

Brenda Mine, located near Peachland, B.C., was shut down in December, 1984 with the loss of about 425 jobs. In May, 1985 the company applied to the office of the Critical Industries Commission for assistance and Coopers & Lybrand was retained to act as the consultant.

	Contributions by Participants
Employees	The employees agreed to a two-year extension of the existing contract (1981) which will run to July, 1987. There will have been no wage or benefit increases during this time. The union has also been very progressive in its attitude towards work rules and productivity.
Company	The company has agreed to operate the mine at a loss, given current metal prices, and has implemented a profit-sharing plan for all employees, union and non-union.
Province	Agreed to eliminate the machinery and equipment component of the school tax, retroactive to January 1, 1985. In addition, the province agreed to a 43% reduction in the land and building component of the school tax for a period of three years.
B.C. Hydro	Agreed to a 30% maximum reduction in electricity rates to August 31, 1988. The discount will be phased out if the prices of

copper, molybdenum, silver and gold rise to the point where the company is profitable.

- ## LAMFORD FOREST PRODUCTS LTD.

Two new companies, Lamford Holdings Ltd. and Lamford Forest Products Ltd., were formed to take over the operations of the former Sooke Forest Products Ltd., which had been in bankruptcy since 1984. The office of the Critical Industries Commissioner was approached by the IWA for assistance in June of 1985 and the firm of Henfrey, Samson and Belair as well as J.V. Christensen, an independent forestry consultant, were retained on behalf of the Commission.

	Contributions by Participants
IWA	The IWA credit union has loaned $500,000 to provide equity in the new company. The loan will be repaid by assignment of a portion of the employees' wages. The IWA underwrote the cost and performed all the entrepreneurial functions of forming the new company.
BCDC	Provided a loan of $2 million for shareholders equity. This loan will also be repaid by assignment of employees' wages. BCDC also provided a $1 million standby line of credit for the Bank of B.C. loan.
Bank of B.C.	Provided a $6 million working capital loan.
City of New Westminster	Sold the Lamford mill and associated property and leases to the new company for the sum of $951,956.75, being the amount of taxes owing as at December 31, 1985. Payment

	will be over 5½ years with no interest for the first 18 months and 7% thereafter.
Province	The province agreed to turn over the Sooke mill and associated property and leases to the new company for $1,400,413, being the back taxes and accumulated interest and penalties owing as at November 30, 1985. Repayment terms are identical to the above terms for New Westminster.

- ## STEGE LOGGING LTD.

Stege Logging operates a sawmill at New Hazelton, B.C., and also runs a logging operation nearby in the Kispiox area. In June 1985 the company approached the office of the Critical Industries Commissioner in order to avert a shutdown. The firm of Laventhol and Horwath Ltd. was retained to act on behalf of the Commission.

	Contributions by Participants
Employees	The employees are non-union and receive pay rates about 10% lower than those of competing mills in the area. In addition, fringe benefits are considerably lower. About 1/3 of the employees are native Indians.
Company	The owner of the firm, Mr. Irwin Stege, has been a model employer in the community. He has continued to operate the mill even though it would have made economic sense to shut down. As part of the restructuring, Mr. Stege's brother injected $300,000 in additional equity in return for a share of ownership.
BCDC	BCDC loaned the company an additional $350,000 in the last few months to complete the modernization and upgrading of the mill.
New Hazelton	The district agreed to repayment of outstanding 1984-85 property taxes over a three-year period with no additional interest or penalties.

Province	The province agreed to waive the interest on past stumpage and royalty fees for a saving to the company of $10,814.37.
B.C. Hydro	B.C. Hydro agreed to waive payment of $21,259 on an underbilling resulting from a faulty electrical meter.

COMMISSIONER OF CRITICAL INDUSTRIES

Schedule of Operating Expenses for the Nine Months Ended December 31, 1985

Salaries (including Commissioner)	$ 74,073.00
Employee expenses (including travel)	4,640.90
Office start-up	30,655.66
Office expenses	32,812.07
Miscellaneous expenses	735.22
Professional Services	
Bull, Housser & Tupper Christensen, J.V. & Associates Coopers & Lybrand Dunwoody & Associates Laventhol & Horwath Limited Samson Belair Sterling Wood Group Inc. Thorne Riddell Inc. Touche Ross & Co.	75,867.49
	$218,784.34